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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000659

SIPDIS

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SUBJECT: STATOIL EXECUTIVES ON SCP COMPLETION AND FURTHER  
SHAH DENIZ EXPLOITATION

Classified By: acting DCM Joan A. Polaschik, reasons 1.4 (b), (d) and (e).

**¶1.** (C) SUMMARY. Statoil executives in Baku cautioned about on-time completion of the South Caspian Pipeline (SCP) and expressed concern about conditions in both Azerbaijan and Turkey that could be obstacles to further large-scale energy projects. SOCAR has requested that its share of Shah Deniz gas be removed from the export stream before the point of sale, complicating the sales picture. Long term, the Statoil executives believe Azerbaijan should open Shah Deniz to full-field development and, after then adding gas from Kazakhstan and/or Turkmenistan, will be able to export significant quantities to Europe. New infrastructure beyond the current SCP line will be required to make this happen.  
END SUMMARY.

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DIFFICULTIES IN TURKEY AND AZERBAIJAN  
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**¶2.** (C) Senior Baku Statoil executives Georg Gunderson, Jan Heiberg and Sverre Olden Mala invited EUR Ambassador Steven Mann to lunch April 20 and used the opportunity to update emboff on SCP developments. The executives were cautious as to whether SCP could be completed on time. They pointed out the long delays plaguing BTC and noted that BOTAS, the Turkish state pipeline company, had gotten a late start with SCP as well. However, Gunderson argued that the situation is different for BOTAS in the case of SCP. "With BTC, they are building a pipeline for someone else," he said. But Turkey will actually own the Turkish segment of SCP and will actually obtain gas for domestic use from it. This gives BOTAS an incentive to work quickly, an incentive that does not exist with BTC. BOTAS is late on both pipeline and compressor station construction but SCP can supply initial volumes even without a Turkey-based compressor station as long as the line is successfully completed.

**¶3.** (C) Gunderson expressed concern over what he characterized as a new Turkish ban on BOTAS signing new gas contracts with existing suppliers. This would prevent Turkey from participating in exploitation of Shah Deniz beyond Phase I. In addition to getting around this obstacle, Turkey will need to sign an "extended" Inter-Governmental Agreement if it wants to participate in further gas export projects from Azerbaijan. The current IGA only covers Phase I. Gunderson feels that any attempt to get over these hurdles will be met with pressure from Russia. He also feels that further

exploitation of Shah Deniz presents a great opportunity for Turkey of which the Turks should take advantage.

¶14. (C) Turkey is not the only area where Statoil sees difficulty. The Statoil executives echoed many in the international energy community here when they bemoaned what they see as a "leadership vacuum" on energy issues in Azerbaijan. While some in SOCAR and the GOAJ appear interested in new projects, they argued, others seem content to rest on their laurels. The President should instruct SOCAR to identify new personnel and devote sufficient personnel resources to next phase gas development.

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FURTHER EXPLOITING SHAH DENIZ  
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¶15. (C) The Statoil executives noted one recent disturbing development. SOCAR, the state oil company of Azerbaijan, has requested that Azerbaijan's share of Shah Deniz gas be removed from the gas flow before the gas leaves Azerbaijan. While understanding that Azerbaijan needs gas for domestic use, the Statoil executives pointed out that removing the gas before the point of sale will make the amount of gas available for sale less predictable and less certain. This issue is still unresolved.

¶16. (C) As far as getting more Caspian gas into Europe, the Statoil executives argued that the best way to begin would be with full-field development of the Shah Deniz field, in other words, beyond Phase II. Once this process begins, they feel, it will be easier to bring in participation by Turkmenistan and/or Kazakhstan. In any event, new infrastructure will be needed. The existing SCP line, according to the Statoil

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executives, will be able to transport at most 20 bcma. This will not be enough both to meet projected future domestic needs in Azerbaijan and Georgia and to transport significant volumes to Europe. Therefore, a new gas line will be necessary if cross-Caspian volumes becomea reality. The executives did not believe, however, that a second pipeline would be infeasible.

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